



Annual Report

For the year October 2019 to September 2020

Produced for the Annual General Meeting, March 2021



As rainbows became the image of hope in the year of Coronavirus we used this local image as our Facebook header photo.

Gateway Credit Union Limited is Authorised by the Prudential Regulation Authority and Regulated by the Financial Conduct Authority and the Prudential Regulation Authority ref: 214010

Gateway Credit Union Annual Report 2019-20

This is a report on the activities of Gateway Credit Union during the year October 2019 to September 2020, prepared for the Annual General Meeting in March 2021. This, of course, has been a year like no other in most people's memory. In March, less than halfway through our financial year, we faced the first Covid lockdown and all the difficulties and limits on business activity that came with it. For the second half of our business year we became a mainly on-line and telephone based organisation with only limited face-to-face contact with our members. Inevitably the economic impact on the Country and on our members in particular of both Covid and the continuing uncertainty of Brexit negotiations was reflected in our performance. Although savings continued to grow steadily, the value of the loans we issued fell significantly. We continued to face a number of challenges, particularly the growth of arrears and defaults arising from the financial pressure faced by many of our members.

Membership

Membership grew during the year. We not only gained more new members, but also closed fewer dormant accounts. Active adult membership rose from 3267 at the end of September 2019 to 3498 at the end of September 2020, an encouraging increase of 7%.

In a competitive financial services market, our challenge remains to keep membership of the Credit Union at the core of members' personal finances, and to turn one-time borrowers into long-term savers.

Priorities for the year

The Credit Union's priority has remained to reach sustainability in covering core costs from earned income, growing our lending while ensuring that costs are held down and bad debt remains at an acceptable level. Our aim continues to be to provide affordable credit and accessible savings to a growing number of low-income members but to also attract members in employment, particularly through payroll partnerships with employers.

During the year we continued to have funding for the Development Officer role from Welsh Government; however in the second half of the year it became necessary to reduce staffing to reflect the downturn in business activity due to the pandemic. Two members of staff were placed on furlough for a period under the Government's support scheme.

The mobile friendly app and new online lending platform on our website, together with the introduction of digital signatures and open banking were underway before the pandemic but have proved invaluable as we moved to becoming a largely digital and telephone based operation. with some staff and volunteers working remotely.

It is an understatement to say that this has been another challenging year, with the major and continuing impact of the Covid pandemic, the continuing roll-out of Universal Credit

affecting many of our members and their families and Brexit uncertainty reflected in a lack of wider consumer confidence. We saw a continuing increase in the number of members seeking debt solutions or asking for reduced payments or payment holidays, and saw many members finances worsen compared with previous years.

Lending

Lending reduced significantly with the total amount out on loan falling by 14% in the year. Clearly this was contrary to our business plan aims. We continued to attract a mixture of applications, with our traditional business of small loans for household items, Christmas and holidays but mixed with many fewer larger loans for cars, home improvements and debt consolidation. The pattern of loan growth and applications was much more muted than previous years, with both Christmas and summer holiday periods showing smaller peaks.

At the end of September 2019 we had £1,886,480 out on loan, which fell to £1,620,649 by the end of September 2020.

We continue to assess every application individually, based on a careful assessment of the member's household finances. Loan decisions are taken by the lending team, comprising members of the Credit Committee and the staff team. During the year we approved and issued loans totalling £854,399, significantly down on the previous year. The majority of these were loans under £1000.

Credit Control

We continued maintain prompt and effective credit control processes during the year, although arrears beyond 1 month have continued to be above our target of below 5% of the loan book. A significant proportion of debt written off in previous years is now under recovery, but we continue to have more members falling into arrears or seeking debt solutions. When a loan falls into arrears we have to make provision for loss, even though we expect to recover the money in the long term. As a result of these increases in provision we would have made a loss in the year but for specific grant to boost our reserves. We are fortunate in having a skilled and experienced Credit Control team and the Board monitors arrears closely.

Savings

During the year savings continued to grow steadily from £2,651,471 in adult savings and £381,657 in junior savings to £3,027,657 in adult savings and £410,812 in junior savings. The Cash ISA was reopened only to existing holders in April with a limit on deposits for the year.

Transactions and services

We now handle over 10,000 transactions a month. We are now seeing many more payments coming in electronically than in cash, and telephone and the web app are the most popular contact methods. We continued to maintain face to face services across Torfaen and Monmouthshire albeit on a very restricted basis in the second half of the year.

During the year our pre-paid card supplier withdrew their Change account and we replaced it with the Engage card. For those members who indicated a wish to do so, we moved their accounts over to the new card.

Early in 2020 we ended the life insurance on savings and replaced it with a benevolent fund. Whilst this will lower the maximum individual amount paid out, it should result in a larger proportion of our members' estates receiving a payment on death.

The Board

Gateway has a skilled and dedicated team of Board members, many of whom also take an active day-to-day role in the running of the Credit Union.

Board members during the year were Brian Phippen (Chair), David Williams (Managing Director), Phil Jenkins, Rod Senior, Malcolm Jones, Paula Phippen (acting Treasurer), Pam Thornton, with Iestyn Foster joining the Board at the last AGM. Ross Edwards, our former Debt Recovery Officer, briefly joined the Board but resigned due to a perceived conflict of interest with his new employment. The Board is currently seeking new Board members who can bring specific skills to the Credit Union.

Volunteers

We continue to rely on the dedication of volunteers across both counties, although we have had to stand down many of our experienced and enthusiastic volunteer colleagues to achieve social distancing in the offices and protect those who should be shielding. Paul Erckens, Andrew Amos and Mark Calvin continued their valuable Internal Audit roles, with Ian Richardson joining them during the year. We hope to return to a full complement of staff and volunteers in 2021 as restrictions are lifted.

Staff

The Chair and the Board would also like to acknowledge the hard work, dedication and commitment of the staff particularly during this testing year. We have an established team, although we were sad to lose our long serving Debt Recovery Officer Ross Edwards during the year, we wish him success in his new career direction. Right at the end of the year we appointed his replacement Andy Tish.

During the year our staff (and Board) became increasingly familiar with the conventions and limitations of virtual meetings through a variety of on-line apps.

Partnerships

We are fortunate in having the support of our partners in both counties. Key partnerships include Torfaen County Borough Council and Monmouthshire County Council who allow us to operate from their premises, encourage schools to open savings clubs, and promote payroll deduction to their staff and membership to local residents. As Councils have reduced and combined services we greatly appreciate their commitment to still offering us space. Our Cwmbran library location has obviously been affected by the Library Covid closure, and while we have continued to host Council and advice services in our Chepstow office, these too have been affected by lockdown rules. At the end of the year we decided not to continue our shared office in Abergavenny with Monmouthshire CAB due to the difficulties of achieving social distancing, and the need to cut costs.

We also work closely with the other members of Credit Unions of Wales and play an active role in the Association of British Credit Unions (ABCUL). Mutual support within the credit

union sector and the expertise of our trade body has been more important than ever in navigating these difficult times.

We continue to take part in Welfare Rights and Financial Inclusion Partnerships in both counties, and to work closely with partners in supporting members. We continue to benefit from the support of Melin Homes, Monmouthshire Housing Association, Bron Afon Community Housing and Pobl group in promoting credit union membership to their tenants and staff. We also work with a range of community and voluntary organisations across Torfaen and Monmouthshire, and have longstanding relationships with the Rectorial Benefice of Pontypool, the Methodist Church in Llanyravon, CoStar, Torfaen Voluntary Alliance, and the Wyesham project. We gained Thornhill Playgroup as a payroll partner during the year.

Our schools partnerships thrived in 2019, but school closures in 2020 meant that savings clubs had to cease operation. We hope to return to schools later in 2021.

We have been extremely fortunate over the years in having in-kind support from Torfaen Council in the form of IT hosting, telephony and support from SRS. However we were notified in 2019 of their intention to withdraw this support from all their voluntary sector partners for cost reasons. We therefore embarked on the process on procuring a new supplier of these services. Our new server and telephony systems were eventually installed in October 2020 with funding assistance from the Welsh Government, managed by our new IT partners Orbits and the Phone Co-op.

Funding

During the year we continued to receive funding and support from the Welsh Government for our development projects, and were able to access a variety of covid recovery funds. Total grant income was £130,197. This includes a further capital grant of £60,000 from the Lloyds Credit Union Development Fund. We also received funding from the Lottery Awards for All programme for a budgeting support project which has yet to be delivered.

We applied for (and have since received) a subordinated loan of £100,000 from Welsh Government to strengthen our reserves and underpin our growth.

Financial performance

Our income from loan interest was £209,110 during the year, only slightly above the previous year, and below target. While the Board reduced operating costs and staffing from £210,149 in 2018-19 to £190,954 in 2019-20, and brought in measures to increase revenue in future years, the increase in impairment losses has absorbed capital grant funding which was intended to underpin our future growth.

Dividend

Having made a loss on operating costs in the year, the Board is not recommending a dividend for 2019-20.

Summary

Gateway Credit Union is far from unique in regarding 2020 as an extremely difficult and challenging year. While membership and savings continued to grow in line with our business

plan, loan growth, particularly, and loan income were lower than our targets and provisions for bad and doubtful debt remain well above our benchmarks. Staff and volunteers have worked extremely hard in uniquely challenging circumstances to ensure continued good service to members. A number of IT issues outside our control hindered our ability to complete projects which would improve service and efficiency, most of these are now resolved with the installation of our new systems.

Detailed analysis has led to decisions being taken on fees and costs, lending risk, interest rates and insurances which should assist us in returning to surpluses in future years, and we remain well within compliance ratios. However, like very many businesses, we are reliant on the National economy returning soon to something approaching normality. Our focus remains on supporting our members, many of whom are also experiencing difficult times, on developing our payroll partnerships with employers, and on providing excellent service.

In June 2020 we asked members for their views about the future shape of our services. This consultation helped the Board to conclude that digital and phone services are now the main way in which members prefer to interact with the credit union, but that many members value also having the option of face-to-face services, and friendly local support in managing their finances. We hope to return to seeing more members in our offices, their workplaces and at community events as restrictions are lifted, but will continue to focus on providing efficient virtual services and a friendly voice at the end of the phone.